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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING (PROPOSAL FIVE)	Docket No. RM2015-13

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
REGARDING PROPOSAL FIVE
(October 2, 2015)

Order No. 2690 (September 1, 2015) linked the dates for initial and reply comments regarding Proposal Five (IMTS) to the submission by the Postal Service of its responses to Chairman's Information Request No. 1. Those ChIR responses were submitted on September 14, and the consequent due dates for initial and reply comments became September 17 and October 2, 2015. The only initial comments submitted were those of the Public Representative, filed on September 17. The Postal Service hereby replies to the comments of the Public Representative.

The Public Representative recommends approval of Proposal Five, but with a modification. PR Comments (September 17, 2015) at 3-4. Exactly what modification is contemplated by the Public Representative is not entirely clear, but it would appear to involve, when calculating the "inbound" share of total (inbound and outbound) money orders, the substitution of the number of incoming money orders cashed at post office windows in place of the number of all incoming money orders. The Public Representative seems convinced it is feasible to make this substitution, despite quoting ChIR responses which indicate that it is not possible to break out the subset of incoming money orders cashed at postal retail windows from the total number of incoming money orders cashed (which includes both those cashed at post offices, and those cashed at other financial institutions, such as commercial banks). *See* PR Comments at 3-4. Specifically, the Public Representative asserts that the Postal Service "can use its accounting data to make the distinction," and further postulates that this can be done using the information provided in the spreadsheet (ChIR.1.Q.3.IMTS.xlsx) filed with the response to ChIR No. 1 on September 14, 2015. *Id*. at 4. The Postal Service, however, is unaware of how this can be done using the information in that spreadsheet. It is possible, in making this assertion, the Public Representative was implicitly assuming that commissions are paid only for transactions in which the money orders are cashed at a postal retail window. That turns out not to be the case (despite what may appear to be an indication to the contrary on the second page of the Postal Service's June 30th ACD response).

The salient facts appear to be as follows. It is possible to use the Federal Reserve Bank (FRB) data to estimate the total number of incoming money orders cashed. It is also possible to determine how many of those cashed money orders originated in countries that pay a commission, although for purposes of estimating total transaction *time* at postal retail windows, that distinction does not appear to be relevant. What apparently is *not* possible is comprehensively isolating the cashing transactions conducted at postal windows from those conducted elsewhere, although that distinction *would be* relevant to the task at hand. The total number of money orders cashed (obtainable from FRB data) is therefore an absolute upper bound on the number of money orders cashed at postal windows, but depending on the portion of incoming money orders that are actually cashed at nonpostal locations, will overstate that number by some unknown amount.

In order to try to get some better grasp of the magnitude of the potential overstatement implicit in the assumption that all incoming money orders are cashed at postal retail windows, staff at the Accounting Center in St. Louis were asked to examine manually each of the incoming money order images currently on hand for processing to attempt to determine whether the item was negotiated at a bank or at a post office window. The results of this labor-intensive "snapshot" suggested that of the incoming money orders in the batch being processed at the time of the inquiry last week, only 15 percent were cashed by the Postal Service, and the balance were negotiated elsewhere. This exercise suggested that direct reliance on the total number of incoming money orders, as reported in the FRB data, as an approximation of the total number cashed at postal windows is probably unwarranted, and that some adjustment appears to be in order.

For the lack of any better alternative, the Postal Service suggests that the FRB data as shown in the spreadsheet accompanying the Postal Service's June 30th filing (USPS-FY14-NP43) be modified to use only 20 percent of the FRB total cashing transactions as a ballpark estimate of the number of incoming money orders cashed at postal retail windows. Such a proportional split corresponds with the apparent reality that, based on the manually-intensive snapshot, the sizeable majority of incoming money orders are cashed at nonpostal locations, but still allows for a nontrivial share of transactions at postal windows. The empirical results of this approximation in FY2014 can be seen by reducing the value in cell I14 in the "Proposal and Comparison" tab of the NP43 spreadsheet to one-fifth of its previous value. Because this reduces the "incoming" proportion of total money orders (incoming and outgoing), it reduces the share of net window costs (after Dinero Seguro window costs are subtracted) allocated to incoming money orders. In fact, the incoming costs in this instance are reduced to the extent that the total incoming commission revenue (cell H14) exceeds total incoming costs (cell Q14). In other words, under this 20 percent assumption, incoming money orders in FY2014 would actually have yielded a net positive contribution in cell R14 (although the negative contribution from outgoing money orders in cell R13 would have increased correspondingly).

While, on the one hand, one might be tempted to fear that such a procedure (i.e., adopting the 20 percent figure on an ongoing basis) puts too much reliance on a simple snapshot exercise, it may be useful to recall that, at least in the FY2014 context, each one percent point shift in the adjustment factor applied is shifting less than $3,000 in window costs between incoming and outgoing money orders. Spending additional time or effort in trying to refine this analysis is simply not worth the candle. Clearly, 20 percent is a ballpark figure, and may be no more appropriate than the 15 percent observed on the snapshot day, or 10 percent, or 30 percent, but substituting any one of these alternatives is not going to alter the financial assessment in any material fashion.[1] Even when, as in this instance, choosing among them might appear to signify the difference between an above-water product and a below-water product (the tipping point here is an adjustment factor between 24 and 25 percent), the reality is that the entire procedure is simply too imprecise to warrant any great confidence in the evaluation of

[1] While 15 percent would be the adjustment most directly congruent with the results of the snapshot exercise, the Postal Service views the creation of a small buffer to protect against understatement of the adjustment to be prudent, and therefore recommends 20 percent rather than 15 percent. As suggested above, however, neither would seem to have a substantial impact on the estimated costs.

estimates that reflect such an astonishingly small fraction of total Postal Service activity and expenditures.[2]

An adjustment factor of 20 percent, though, is in accord with the clear indication that relatively few incoming money orders are cashed at postal windows, and seems to be the best available solution to the complex challenges presented by the existing set of circumstances.

Therefore, despite arriving at the same conclusion via vastly different routes, the Postal Service agrees with the view of the Public Representative that a modification of the proposed methodology (to address the treatment of money orders cashed at postal facilities versus cashed elsewhere) is appropriate. The Postal Service respectfully urges the Commission to approve Proposal Five as set forth in the USPS-FY14-NP43 spreadsheet, with the addition of a modification which reduces the total number of incoming money orders reported by the FRB (cell I14) by 80 percent, for purposes of splitting the relative shares of net window costs between incoming and outgoing items.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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[2] For example, in the CRA, costs and revenues are rounded to the nearest one-tenth of $1 million, or $100,000. Potential shifts in the range of thousands or even tens of thousands of dollars would only rarely show up at that level of rounding.